

Role of Government Resource Mobilisation
in Economic Development --a
comparative study of British
India and Meiji Japan

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Economic development is a complex process involving not only the material and human resources of a country but also the values and institutions which are related to the evolving socio-economic framework as well as its international linkages. Depending on the character of the State, the Government as a basic political institution can exert a powerful influence in mobilising and deploying material and human resources apart from creating and harnessing other institutional and organisational arrangements conducive to the process of development. In a broad sense, therefore, mobilisation efforts of government embrace the direct and indirect measures redirecting material and human resources in desired channels so as to increase the growth of national product as well as the pattern of income distribution.

Some of these efforts are non-economic in nature. The formation of an independent national government, giving it a goal-orientation, maintenance of law and order, designing a system of relevant education, acquisition of scientific knowledge, transfer and diffusion of technology etc., are some of the noneconomic aspects of organised life having an important bearing on economic development and social change. Fiscal and financial institutions and instruments are some of the efforts of government which wield direct and indirect

influence on the economic and social life a country. Neither all the efforts of government nor their impact on the socio-economic life of a nation are quantifiable. But in their anxiety to claim exactness, economists tend to shy away from nonquantifiable variables which may be of crucial importance in explaining economic phenomena.

Preoccupation with inputs and outputs or macro-economic models as well as the categorisation of economic development in terms of stages without due regard to the fundamental systemic differences and the character of the State borne out of the internal framework of production and production relations and their external economic linkages miss a crucial element in economic development. This is particularly important in the study of problems relating to comparative economic development especially when it involves countries like India and Japan whose linkages with the developed metropolitan countries have been fundamentally different.

The fact that Japan escaped the blighting effects of colonial rule meant a qualitative difference to the role of government in Japanese economic development since the Meiji Restoration¹. On the other hand, India had already languished for more than a hundred years under the British colonial rule which exploited the Indian economy for the benefit of the

commercial, industrial and strategic interests of Britain. It is true that "gunboat diplomacy" resulted in an initial encroachment on Japanese political autonomy. But, relative scarcity of natural resources as compared to India, China and Indonesia provided some "Breathing Space" of a couple of decades during which Japan was able to make some strides towards modernisation of its economy and strengthen its defences. The purpose of this paper is to focus attention on how far this relative freedom of action of the State is reflected in the scope and scale of Government resource mobilisation in British India and Japan.

1. Statement of the Problem

The basic question which stares at students of economic history is why the secular growth of real income per head in Japan was about four times as high as that of India during 1868-1913. Though the estimates of national income, population and prices have wide margins of error, the case of India during the second half of nineteenth century is regarded as one of "aborted growth", the percapita real income remaining almost stationary. The growth rate for more than 50 years preceding World War I was a negligible figure of less than one half of one per cent per annum while the corresponding figure for Japan is close to two per cent.

Considering the formidable problems in estimating the relative purchasing powers in India and Japan, it is difficult to establish whether and to what extent the level of real income per head has been different in the two countries around the beginning of the Meiji era. Though the available evidence is not conclusive, it may be held that the per head income in Japan is not likely to have been substantially higher than that of India around 1875.⁷ It is possible that a higher starting level would make subsequent developmental efforts easier. But, possibly, it is not the difference in the initial level of per head real income which has accounted for the difference in the growth rates of Japan and British India over the Meiji period.

Explaining the differences in the growth rates between British India and Japan would involve not only the tracing of the entire gamut of socio-economic and political heritage of both the countries upto the middle of nineteenth century but also covering the entire range of variables involved in the processes of economic development during the period under study. Nevertheless, highlighting some of the salient features of economic history and political environment would enable us to focus attention on the problem

under study.

Tokugawa Japan was one of highly centralised bureaucratically administered feudal country. The major part of Tokugawa period was characterised by relative internal peace and stability and insularity from external influences. It witnessed moderate economic growth based on agriculture, traditional handicrafts and internal trade. Agriculture accounted for about three-fourth of the labour force and over one-half of the national product.⁸ Cultivated area increased markedly partly due to land reclamation. There is evidence of increasing yield attributable to improved agricultural technology and practices.⁹ Grain production is claimed to have been doubled over 1600-1730.¹⁰ Excluding tax rice, about two-thirds of agricultural output seems to have been marketed. Monetisation has been higher in the non-farm sector. The high degree of monetisation and urbanization was accompanied by vigorous growth of trade and commerce. Inequality in income and wealth was pronounced. The feudal lords and their retainers wielded enormous power and influence. But the first half of nineteenth century was characterised by relative stagnation and decline in the political and social life of Japan. Segments of samurai and peasantry also experienced economic hardships. It may be said that the discontent arising from such impoverishment along with the

dissatisfactions about the manner in which the growing external threat was faced strengthened the forces of unification and modernisation symbolised by the Meiji Restoration.

The experience of India was somewhat of a relief in contrast. The Moghul power began to wane when the Europeans were seeking commercial privileges in India. There were diverse political configurations in conflict with one another. In this setting, the initial stimulus to Indian trade and industry was completely lost when the British East India company eliminated other European rivals from the Indian scene and established political control by exploiting the chaotic political situation. Until after the industrial capitalist class gained political power in Britain, Indian economy was the scene of ruthless exploitation by a commercial corporation whose sole concern was to convert its political power into profits. In this process, the glorious Indian traditions in textiles, metal casting and iron works, shipbuilding and other industries as well as in commerce and trade were lost. "Domestic" and "putting out" systems which had emerged in parts of Indian handicrafts were disorganised. The artisans who were engaged in Indian handicrafts which were destroyed by deliberate direct action and through one-sided competition were pushed out of their

traditional occupations and urban abodes to swell the pressure on agricultural land. The wealthy merchants and organisers of industrial activities were loosened out of their traditional moorings and were reduced to a subordinate comprador status.¹¹

When industrial capital prevailed over mercantile monopolies in England, they sought to develop India as an integral part of the British Empire primarily as a dependable source of raw material and a market for the expanding British industries. Neither the Laissez Faire philosophy with which most of the British civilians who were administering India since the reins of power and decision-making were taken over by the British Crown were imbued with nor the complementary role assigned to India in the imperial design was conducive to the modernisation of the Indian economy.

In the middle of the nineteenth century, the land-man ratio was more favourable in India as compared to Japan and there was greater room for adding to the cultivable area. It also had plenty of water resources waiting to be tapped. But the technology of agriculture lagged far behind that of Japan.¹² Both had considerable slack to be taken up. But while slack recovery by small investment in the improvement of simple tools and techniques led to a large increase in productivity per worker in Japan since the Meiji Restoration,¹³

Indian agriculture remained stagnant except in areas where¹⁴ irrigation facilities were developed. There were intermediary relationships on land in both the countries. The Meiji Restoration resulted in the removal of the crust of infaudation, whereas the early British rule had added new layers and forms of intermediary relationships which tended to worsen the conditions of the tillers of the soil. Land legislations undertaken in British India under the Crown were more of palliatives than ones directed to solve the basic maladies associated with the land question.

India had abundant mineral resources most of which were yet to be explored and discovered as against the relative scarcity of raw materials and minerals which had haunted the Japanese economy ever since the beginning of its modernisation. But, while the Japanese leadership took determined efforts to overcome this natural handicap, Indian initiative and enterprise in exploiting its gifts of nature were smothered by alien rulers. Though private initiative and enterprise in Japan gathered greater momentum once the process of modernisation got under way, the initial impulse and initiative for modernisation of the Japanese Economy emanated from the State. The essence of the difference in the pace of economic development in

the two countries thus lies in the relative roles of the Governments.

At the time of the Meiji Restoration, the British had already established a strong and unified government in India which was in no way weaker as compared to the Japanese counterpart. Indian administration was manned by the cream of one of the best civil services in the world at that time. The "man of talents" who came to the fore through the churning of events leading to the Meiji Restoration were in no way superior in their qualifications, training and background of experience to the Indian Civil Service. Indian administration did not have to face internal disturbances of the magnitude and number comparable to the Satsuma Rebellion and other peasant revolts at least until after World War I.

In any case, the ICS was well versed in "putting down riots and in putting up files"! What was lacking, however, is the spirit of modernisation embodied in the slogan "enrich the country and strengthen the army" which fired the imagination and inspired the actions of those who were at the helm of affairs in Japan since the Meiji Restoration. On the other hand, the Indian administration was primarily concerned with the maintenance of law and order. In other words, the keynote of British administration in India was status quo with a view to exploit its resources and market for the enrichment of the metropolitan British

economy and to use it as a spring board to further their imperialist expansion. Indian people had to suffer and struggle for another 90 years after the Sepoy Mutiny to regain political independence and to begin their march towards the fulfilment of their national aspirations.

It is true that the roots of democracy were very weak under the Meiji rule. Infact, under the constitution that was framed, hardly five percent of the adult population gained franchise. The electoral system was heavily loaded in favour of propertied classes. The old feudal lords dominated the upper house of the legislature. Though the army was professionalised, its top layers were occupied by strongmen from erstwhile 'hans'. The talented among the former Samurai were preferred in civil administration. Thus, the Meiji government was elitist in character. But they were all Japanese and were imbued with a spirit of nationalism which pervaded their policies and programmes of action which they sought to implement with unflinching loyalty and unbending determination. Their actions may not have flowed from a fullfledged democratic process or coinciding with the larger interests of the masses of the people. But the Japanese leadership was firmly committed to their national goals of modernisation.

As a part of the socio-cultural heritage, the concept of a Heavenly ordained Tenno system helped forward in galvanising national unity as well as in fostering loyalty to the State symbolised by the Emperor.

In the case of India, the Emperor or the Queen was a foreign national. The top layers of civil and military services in India were drawn predominantly from the conservative segment of the British elite. Their loyalty to the Crown and commitment to the British imperialist interests often ran counter to that of India despite their assertion that both interests coincided with one another. Though administrative unity of British India was established, the foreign rulers fostered and exploited social and religious cleavages for their own ends and these divisions undermined the unity of the nation in the long-run and culminated in the Partition of the country which left its indelible mark on the socio-political fabric of India even after Independence. Though doses of decentralised and responsible government were reluctantly conceded by stages in response to the growing struggle for national liberation, such reforms were conceived of within the framework of British empire. Similarly, the induction of Indian element in the administrative services did not grant anything more than a subordinate and dependent role. Hence the kind of national

spirit and unity of purpose which pervaded Meiji Government were conspicuous by their absence in British administration in India. This fundamental difference in the character of the two governments is reflected in all important policies and programmes having a bearing on the modernisation of the two economies.

For instance, even by the end of Tokugawa era, Japan had reached 30 percent level of literacy, but this base was rapidly expanded along with an effort to impart modern science and technology with a practical bias. The medium of instruction was Japanese though the learning of European languages was by no means neglected. Japanese students were also encouraged to study in western countries which had achieved higher standards of learning. Foreign scientists and engineers were hired to work in Japanese enterprises in the initial decades. They were also teaching in Universities and specialised colleges and institutions so long as shortages of expertise had continued. But their services were dispensed with when Japanese personnel were in a position to replace them. They were also cautious about foreign control and influence over the Japanese educational system. Such a comprehensive approach on education speeded up

the process of acquisition of knowledge of modern science and technology as well as their diffusion and adaptation to the needs and conditions of Japan.

The education system introduced in British India was quite different though Western education was introduced at the University level following the Minutes of Lord Dalhousie in 1853. But the educational base was very thin and universal education imparted through vernacular medium was a far cry. Instead, education in British India was elitist in nature confined to a fraction of the privileged population. The medium of instruction was English. The accent of education was on Humanities. Even when science and engineering were introduced, the bias was on theory. The primary purpose of education was to create an army of clerks and other subordinate manpower needed to run British administration in India. There was no upsurge in industrial development to absorb scientific and technical personnel. The emphasis of engineering education was on civil engineering which was helpful in public works like roads, buildings irrigation, railways and telegraphs. The elitist social character was evident in that engineers seldom handled machines and agricultural scientists hardly soiled their hands. In short, education in India was not geared

for raising the scientific and technological basis of modernisation of the economy.

Such qualitative and quantitative differences in the policies, programmes and activities can be seen in the entire range of governmental functions. To a large extent, the scale and range of differences are reflected in the public finances of the countries in question. But the indirect influences and effects as well as the qualitative aspects of public policies may not be fully revealed by the revenues and expenditures of government. But a comprehensive approach embracing the financial policies, mobilisation of the fiscal resources and their deployment as well as the creation of the requisite financial institutions and instruments would throw a good deal of light on the relative roles of government in Japan and British India. Special emphasis may be placed on the involvement of government in investment activities. Wherever possible we may also delve behind the budgetary figures to get glimpses of the politico-economic forces influencing public policies. This then is the focus of the present study.

2. Why The Meiji Period?

Following the Rostowian schema, the Meiji era in Japan is periodised into two distinctive stages viz, period of transition: 1868-1885, and period of take-off: 1886-1913.

These periods, however, do not coincide either with British rule which extended upto 1947 or with Rostowian categorisation by which the period of transition in India might extend even beyond Independence.

Nevertheless, confining to the Meiji period would help us to focus attention on the differential roles of the States reflected through the fiscal policies and processes which accounted for the "Take off" in Japan and relative stagnation in British India despite considerable fiscal activity. Consequently, it may not be worthwhile to follow any modelised periodisation. Similarly, comparative trend analysis based on modern statistical techniques may not be necessary since the main purpose is to highlight the differences in the role of the State. Limitation on the size of the paper would also constrain the scope and nature of the analysis.

3. Sources and Relevance of Data

Public finance data relating to India are exclusively drawn from the Financial Statements of the Government of India since 1860 along with the Speeches of Finance Members. Explanatory Memoranda, commercial and other statistics appended to them and so on. Data regarding local governments, trade, industry, prices, etc. are mainly drawn from Statistical Abstract Relating to British India since its publication from the middle of eighteen seventies. The

compilation of monetary and financial statistics by the Reserve Bank of India relates to the period beginning from 1900-01, Publications of reports on railways, irrigation, trade, company registrations etc, have also been used. Reports of committees and commissions appointed by the Government from time to time and the publication of books and articles on various aspects of economic and public policies have also been used.

The raw data obtained from the Financial statements and related sources are processed in terms of Keynesian concept of consumption and investment as suggested by various reports on Functional and Economic Classifications of Government Expenditure published under the auspices of the United Nations in the early fifties. Accordingly, the various departments are classified into general and trading departments. The current account of the general government is classified as tax and non-tax revenues on the income side and general administration, transfer, defence etc. on the expenditure side. The emerging surplus or deficit is linked with increase or decrease of short and long-term liabilities as well as with accretion or depletion of cash balances on the sources of finance in the capital account.

Some kind of commercial accounting is attempted in the case of trading departments. As for revenue producing activities, the trading account consists of gross receipts

on the income side and operating expenses and depreciation on the expenditure side. The trading surplus or deficit emerging from this account when adjusted for long-term interest payments result in overall surplus or deficit which along with depreciation would appear on the sources of financing side as gross saving. Net borrowing etc., also figure in on the financing side. Gross investment appears on the expenditure side. As for the non-revenue producing trading departments, the income consists mainly of grants-in-aid. When such exercise is completed for each trading department for any financial year, an integrated account for all the trading departments can be prepared to derive overall public investment and its financing for each layer of government. Two more steps are necessary to get at public investment and its financing for the entire government embracing all the layers. First, the consolidated accounts of all the trading departments should be integrated with that of general government at each layer of government. Secondly, the integrated accounts of all layers of government will have to be combined. This is what has been done as regards the processing of data relating to India for the entire period. Of course, to begin with there was only one layer of government.

From 1870's some municipal governments and local bodies had emerged. Their consolidated financial accounts were presented separately for municipalities and local bodies in Statistical Abstract Relating to British India except for some years.

Though some adhocism and tentativeness are inevitable in such massive exercises based on inadequate details, the processed data relating to Indian public finances permit some analysis based on modern concepts. Unfortunately, similar exercise could not be undertaken for Japanese public finances mainly due to lack of knowledge of the Japanese language. But comparable exercises have been done by Japanese and foreign scholars though there are minor differences in the concepts employed and in the manner of compilation and consolidation of data relating to public sector. No attempt is made in this study to resolve conceptual and methodological differences. Whatever comparisons are made, therefore, relate to relevant aggregates or specific details. In this regard, several other studies are used as secondary source material for this study.

4. Framework of Fiscal Policies

In a stricter sense, fiscal policy relates to tax and non-tax revenues as well as to public borrowing on the receipt side and current and capital expenditure on the expenditure side. When budgetary deficits are covered either by a direct resort to the printing press using the note-issuing prerogatives of the government or by credit creation

unaccompanied by saving from elsewhere using its commanding influence over the credit system, fiscal policy straddles into monetary policy as well having an important bearing on prices and foreign exchange parity. Similarly, taxation and subsidisation of exports and imports exert a strong influence on foreign trades as well as on the investment climate. Creating the requisite financial institutions and instruments and wielding controlling influence over the financial system would also enable the government to canalise private savings through financial institutions and to re-direct their flows towards the fulfilment of desired national purposes.

The scope of fiscal policy outlined above implies a strong interventionist role of the State which has been the case with most of the late comers into the capitalist world such as USA, Germany and Czarist Russia. The role of the State was even more pronounced in the case of Japan. Though its Treaty obligations placed some restrictions on the fiscal autonomy of Japan, it was more than made up by the innovative and intensive role of fiscal policy and activity. This is quite in contrast to the conservatism and subservience to British economic ideas and interests which have characterised fiscal administration in British India.

As a fore-runner of Industrial Revolution, Britain enjoyed an initial competitive advantage over her

European rivals whom she could deal with effectively through Free Trade. Expansion of domestic market through division of labour and specialisation required the removal of all Mercantilist barriers to trade and industrial activities. The triumph of industrial bourgeoisie over mercantile capital heralded a regime of *Laïzzé-Faire* more or less in its pure form from midforties until after 1873 when a depression accompanied by stiffer competition arising from the growing industrial might of other European countries.

When market forces reigned supreme, the interventionist role of the State was found superfluous. Accordingly, the State was assigned the role of an umpire primarily engaged in the maintenance of internal law and order and external safety apart from enforcing laws relating to contract. The philosophy of *Laissez Fair*, therefore, kept the government small and the best of public finance was regarded as one which was least in amount.

Though text-book economics in the non-communist world still maintains the competitive market as the main basis of theorisation, the experience of economic development all over the world has shown that, without exception, every latecomer on the road to economic development have used the state as a powerful engine steering the course of development. Even Britain modified the role of the State since the

nineteen seventies when passive non-interventionism was no longer serving its basic economic interests. Considering the backward economic conditions of India, the State should have played a comprehensive role in stimulating economic development given the requisite fiscal autonomy and the will to develop.

But the policies pursued by the fiscal administrators were not conducive to a balanced development of the Indian economy.

Finance Members in India from James Wilson downwards who were¹⁶ steeped in the conservative traditions of the British Treasury looked up to the English financial system with filial reverence and took it as a model of perfection. Sir David Barbour, an ex-Finance member, spoke for all his predecessors and

successors when he said in his evidence before the Welby Commission of 1895-1900 that "we take our principles of finance

from England."¹⁷ In most cases the principles were those propounded by Adam Smith and his conservative followers.

Balanced budgets, reluctance to borrow during peace time and loan-financed productive public works etc., were some of the classical concepts and traditions flowing from the British Treasury. Similarly, linking the Indian currency system with Gold Standard and its variants which were in vogue in Britain before World War I as well as the acceptance of automaticity in the establishment of parity in foreign exchange transactions were also borne out of classical ideas and orthodoxy about

monetary system prevalent in Britain. Welfare programmes and social services were also shunned. Education which is a crucial component of economic and social development received a low priority. Laissez-Faire outlook was modified insofar as the development of a network of railways were found necessary to link the hinterlands and markets with the major Indian ports or to strengthen the strategic frontiers. Government subsidy and public investment were used for such purposes. Some amount of public investment in irrigation facilities was also undertaken mainly as an insurance against famines which ravaged the country and threatened the lives of millions of people from time to time.

But the inflexibility of the Indian fiscal policy was obvious when it came to protective tariffs. Here it was the interests of British industrial interests in general and the Manchester mill owners in particular rather than the orthodoxy of the fiscal doctrine that influenced public policy. In the beginning, import duties could not be levied even to augment Indian revenues. When some imposition became inevitable in view of the deteriorating financial conditions of the government, a countervailing excise duty was levied on Indian textiles at the instance of British interests to neutralise the notional protective effects of tariffs. Some conscientious Indian administrators had to resign against such gross injustice. Even when Britain

turned protective against its rivals, Indian fiscal policy continued to be based on free trade under the guise of Imperial Preference.¹⁸ Industrialisation as an essential aspect of diversification of the Indian economy as envisaged by the Famine Commission in 1881 and the Industrial Commission of 1916 fell into deaf ears. Limited fiscal protection was provided only from 1924 following the Report of the Fiscal Commission. Indian industrial development was, therefore, languishing without protection throughout the period under study. Fiscal subsidies to Indian industries, cheaper industrial finance and so on were also scrupulously avoided. Besides, the layout of the Indian railways as well as their rates structure favouring long-led traffic flowing towards the ports were geared to exports and imports rather than linking the various economic regions within India complementary to one another. Self-reliant balanced development of the Indian Economy did not find favour with the British rulers in India. Public investment was largely confined to the creation of social overhead facilities. Moreover, the Stores Purchase Policy which was oriented to buying most of its requirements from London precluded the possibility of providing an indirect stimulus to industrial development in India.

Indian fiscal policy cannot, therefore, be regarded as one of passive inactivity or neutrality. It was actively discouraging the growth of Indian manufacturing industries

in favour of British economic interests. It was this negative policy which denied the Indian economy one of the most dynamic sectors in economic development for which it was richly endowed. Growth of manufacturing industries in India which would have led to competition with those in Britain were viewed with a great deal of suspicion and disfavour. The denial of protection to the infant and embryonic industries dealt a crippling blow to the efforts of Indian businessmen towards industrialisation of the Indian economy. Consequently, industrial development in India before World War I was stunned and lopsided. Most of the industries were extra-active or processing in nature, facilitating the export of raw material, food and minerals. British capital dominated in plantations and mining. Jute and cotton textiles were the two manufacturing industries worth mentioning. Indian capital could not get a foothold in the former and was struggling to find its feet in the latter. Iron and steel and engineering workshops were the rare exceptions to the conspicuous absence of heavy and capital goods industries. This was tragic especially in view of the abundant reserves of coal and iron ores found in close proximity to one another. Even here, the Tata Iron and Steel came into being only on the eve of World War I after experiencing long and severe birth-pangs. Thus,

the debilitating effects of the fiscal policies pursued under the British rule had led to the development of an enclave type of economy subserving British economic interests even though the rich natural endowments warranted a self-reliant and balanced economic development. Lack of diversification had also accounted for the narrowness of the economic base for fiscal resource mobilisation.

In the case of Japan, on the other hand, enrichment and modernisation of the economy, which was pursued with single-minded devotion, was closely identified with rapid industrialisation even though the leadership had to wage a relentless struggle to overcome the initial handicaps posed by deficiencies in resource endowments, know-how and skills. But, apart from the ideology of wealth and strength Japan was not initially tied to any particular economic philosophy or doctrine in the formulation or pursuit of its monetary and fiscal policies. Pragmatism was the key-note of its economic policies.

The Meiji Government had to address itself to the chaotic monetary system which had prevailed before and after the Restoration. The introduction of Yen in the place of a myriad of coins and currencies which were in circulation engaged their attention during the major part of the first decade following the Restoration. They made desperate attempts to establish modern banking to deal with note issue, money supply, deposit mobilisation and commercial

and industrial credit. Though their initial efforts did not meet with expected results, they eventually succeeded in creating a network of financial institutions dealing with short-term credit and long-term financing some of which were designed to meet the special needs of the growing sectors of industry, foreign trade and agriculture. In its experiments with the establishment of financial institutions, Japan had drawn from the experience of leading industrial countries like Britain, Western Europe and the USA.¹⁹

Since public expenditure exceeded revenues it was unthinkable to have balanced budgets. There was very little of public borrowing since the institutional basis for such operations were yet to be created. Modern banking were practically nonexistent in the early years of Meiji rule. Some forced loans from wealthy merchants and individuals were attempted. Barring a few exceptions, external borrowing was consciously avoided. The net result was recurring deficit financing by resorting to printing of currency notes and supply of money far in excess of the normal needs of the economy. Inflationary consequences of heavy doses of deficit financing had wider repercussions on prices, external trade, parity of foreign exchange and movement of precious metals as well as on income distribution. The Matsukata Reforms of 1881 were primarily directed to arrest inflation, balance the

budget and stabilise the value of Yen in terms of silver. Though there were echoes of Quantity Theory of Money in Matsukata Reforms, inflationary financing continued to be one of the unorthodox measures pursued in Japan during and after the Meiji period.

Land tax was the main source of tax-revenue both in British India and a good part of the Meiji era. But, while the basic features of the land revenue system inherited from Moghul administration remained intact under the British rule, the Meiji Government undertook to reform the land tax system in 1873 by changing its base from output to capital value of land and by changing the mode of tax payment from kind to money. The reform aimed at stability of land revenue in terms of money, economy in tax administration and equity in terms of uniformity in taxation throughout Japan. Search for new sources of tax revenue such as excise duties on sake, soya etc., was also pursued with interest though there was very little interest on progressive taxes on property or income.

However, it is in public expenditure that the Meiji Government had displayed remarkable vigour and dynamism. Three of them merit special mention. First, education was given its pride of place. Buying and borrowing foreign technology and know-how was also part of this effort. Secondly, the early period of Meiji rule witnessed a scale and variety of public investment unknown in the capitalist world of the nineteenth century. Public investment ranged from heavy industries like shipbuilding to light industries like cotton textiles

and silk reeling. Foreign investments in industries were exceptional. Even when some of these enterprises were sold to private individuals as a part of Matsukata Reforms, public sector continued to make strides in some of the strategic areas of Japanese industries. Thirdly, the commutation of Samurai pensions and the subsequent use of these bonds as capital for developing a network of commercial banks was certainly an ingenious step. Strengthening the army was no doubt necessary for the survival of Japan in view of the correlation of colonial forces operating in East Asia. But its military adventures for colonising some of its Asian neighbours diverted resources from peaceful nation building activities in the short-run when it was mostly needed and paved the way for the gradual emergence of militarism which led to disastrous consequences in the long-run. Nevertheless, the needs of armaments injected a heavy industry bias even in the early stages of Japanese industrialisation.

Thus, the contrast in the fiscal and monetary policies of Japan and British India is quite striking. Basically, there were two factors which constrained the scope of fiscal policy in British India. First, the Laissez-Faire outlook which pervaded Indian administration was irrelevant to the conditions and stage of the Indian economy prevailing during the British period. Secondly, the interest of the metropolitan economy ran counter to the needs and interests of India.

The fiscal policy of India permitted the development of a network of transport and communications as well as commercial irrigation which were conducive and complementary to British economic, political and strategic interests. But in matters of industrial development especially in manufacturing and heavy industries it displayed not merely inactivity but noticeable negativism. This had delayed the industrial development of India by more than three-fourth^{of} a century.

On the other hand, the key-note of Japanese economic policy has been industrialisation. Public investment over a wide range of industrial activities has been the focus of public expenditure until domestic private enterprise was proving itself equal to the tasks. Public finances were strained to the utmost in financing these efforts. Unorthodox methods of financing, therefore, ^{became} inevitable.

There were very few alternatives to choose from. In their struggle to modernise, the Meiji Government were not constrained by any philosophy or theory other than their quest for national wealth and strength and were guided only by what was practicable.

5. Creation of Financial Infrastructure

India was better placed with regard to financial

institutions from the days of the East India Company. The Presidency Banks and several commercial banks were operating in all important industrial and commercial centres even at the time of Sepoy Mutiny. All of them were organised, owned and operated by British entrepreneurs, bankers and cadres. Indian Joint-stock banks appeared only in the last quarter of the nineteenth century. The dominance of foreign-owned financial institutions continued throughout the British period. By the turn of the century, Indian joint-stock banks did not account for more than a quarter of all assets of the commercial banks. There were indigenous bankers all over the country mainly financing internal trade and speculative activities. Hundis, an Indian version of the bill of exchange, was widely in use in the commercial circles. The unorganised sector was largely dominated by money lenders, pawn brokers and so on who were strongly entrenched in the rural sector charging very high rates of interest. Their stranglehold continued even after Co-operative Credit Societies were sought to be developed in parts of the country since 1906.

A well-designed budget system was installed since 1860. A network of Treasuries evolved during the company rule for handling the receipts and payments of Government was functioning in all the nerve centres of Indian administration. Indian Savings Banks date back from 1833. The Post Office Savings banks superceded them in 1882.

Meiji Japan was not facilitated with such modern financial institutions to begin with. The budgetary system of the Government took some years to take shape. There were wealthy merchants in Osaka and Edo during the Tokugawa period. Since there was no unified monetary system exchange houses and brokers thrived. Big merchants and exchange houses monopolised the commercial and financial transactions of the feudal lords and samurai. Konoike, known as the largest merchant of the Tokugawa period, entered the exchange house business and became the sole agent and banker for forty-two feudal lords. Some of the exchange houses extended loans to commodity producers, merchants, farmers and peasants. They even drew bills facilitating domestic remittances. Most of the loans were for purposes of consumption. The interest rate charged by exchange houses and money lenders was quite high. But, with the opening up of the ports, foreign trade with industrialised countries were exclusively controlled by foreign merchant houses and banks. Japanese exchange houses which survived the fall of the Tokugawa regime were not in a position to transform themselves into modern bankers and industrial entrepreneurs though industrialisation occupied top priority in the agenda for modernisation. Since the mobilisation and supply of financial resources were urgently

required, the Government could not sit back and wait until the wealthy merchants and financiers could transform themselves from their traditional role as money lenders, traders and speculators into organisers of venturesome capital. Hence the Government plunged into the task of building up an edifice of modern financial institutions suited to the needs of industrialisation and modernisation of the Japanese economy.

Meiji Government did not have any experience of erecting a modern financial superstructure. Its initial steps, therefore, were faltering and fumbling. The initial objectives for institution building were to stabilise the value of Yen, as well as to meet the financial needs of the Government,
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industry and foreign trade. Hence, it was eager to create financial institutions which could issue convertible bank money by absorbing government bonds. Soon after the Restoration, the government was prepared to stake its own funds and rope in wealthy merchants in initiating Kawasegeishas (banks). Government officials took a leading part in the management of these banks. When most of them failed for want of experience in modern banking, it made a study of banking practices abroad before adopting the system of National Banking introduced in the U.S.A. The blueprint for the National Banking Act was based on the recommendations of Hirobumi Ito who made a careful study of the American system. Apart from providing the Legislative support the government encouraged the use of

pension bonds as the basis of note issue. It also waived the convertibility requirement when the progress was found halting and slow. But, the uniqueness of these banks was that they were not restricted to meet the working capital requirements of industries. Many of them, especially those which were closely linked with the zaibatsu, were extending long-term credits to related industries.

The direct involvement of the government was even more pronounced in the case of Bank of Japan and Yokohama Specie Bank. Matsukata who was responsible for the establishment of the Bank of Japan in 1882 wanted it to be the conductor of all the financial institutions of Japan. Accordingly it was vested with exclusive powers of issuing convertible bank notes. It was also expected to augment total supply of industrial funds by re-discounting bills, to stimulate long-term investment in capital intensive industries by cheapening credit and to rescue industries during times of financial crisis. It was also entrusted with government business. The peculiarity about the Bank of Japan is that, though it resembles the Bank of England in its central banking functions, its central thrust was towards industrial financing.

Half of the initial capital of the Bank of Japan was subscribed by the government while the other half came from the zaibatsu and rich merchants. Executive responsibility

was also shared by the government and the Zaibatsu. The first two governors hailed from the Ministry of Finance while the following three came from Mitsubishi group. Most of the top level managers were also drawn from the ²⁶ Zaibatsu. Thus, the government and the big business were joined at the crest of the financial pyramid in Japan.

This duality is an interesting feature of the Japanese financial system wherein the financial oligarchies of Japan could gain controlling influence and have access to the major sources of industrial finance while, at the same time, the government could wield a powerful influence over the entire financial system and harness its resources for the purposes of modernisation.

The Yokohama Specie Bank which was set up in 1880 was also a semi-government institution designed to facilitate financing of foreign trade thereby the monopoly foreign owned merchant houses and exchange. Though the bank was originally planned by a private group, the government cooperated in its establishment and contributed one-third of its initial capital, all in silver. The government also entrusted the Bank with three million Yen of government paper money to deal with ²⁷ In this process, foreign bills of exchange. The government got the much need specie apart from gaining influence in its operations.

When Matsukata established the Bank of Japan he envisaged it as the central bank of a commercial banking system

specialised in short-term credit. He suggested the setting up of an industrial bank in 1885 to specialise in long-term loans to agriculture and industry. But the ensuing debate about its need delayed its establishment by a decade and a half. What emerged eventually were two specialised banks viz., the Hypothec Bank of Japan modelled after the Credit Foncier of France to deal with long term loans to agriculture and the Industrial Bank of Japan modelled after the Credit Mobilier designed to supply long-term capital to industry and public utilities.

The Hypothec Bank of Japan was established in 1896 with a capital of ten million Yen. Its largest stock holders were wealthy landlords, merchants and peers who had been feudal lords.²⁸ In course of time, however, it emerged as a financier of cheap long-term credit for investment in agriculture and industry on the security of immovable properties. By 1901, industry had claimed a larger share²⁹ of its outstanding loans. Local governments were also helped. The agricultural and industrial banks which were set up under its auspices had contributed to the improvement of production techniques in agriculture and such industries as fishing, forestry, some type of mining and later textiles. Though its stocks were privately subscribed, the government closely supervised its operations.

The government was also helping the Bank with funds through the Deposit Bureau of the Ministry of Finance which bought a substantial part of its debentures using the net accumulations from Postal Savings. The Bank was also enabled to mobilise small private saving by issuing government guaranteed debentures. These involvement gave the government a leverage over the operations of the Hypothec Bank and its subsidiaries like the Hokkaido Colonial Bank, Industrial Bank of Chosen, Oriental Development Company and so on. The network of credit cooperatives and associations could also be helped through the Hypothec Bank as well as through the commercial banks.

Before the advent of the Industrial Bank of Japan in 1900, the long-term needs of industry was met by several institutions like commercial banks, Hypothec Bank, Bank of Japan and by the Government. This became necessary due to the relative underdevelopment of the capital market and the absence of investment banks. During times of crises all of them pitched in to rescue the affected industries and individual concerns from bankruptcy. The Bank of Japan and the Deposit bureau were in the forefront of such operations. These rescue operations were partly intended to make up for the weakness of the general insurance facilities in Japan, Thus the functions of the Industrial Bank of Japan overlapped with practices which were already in vogue in other financial

Institutions established earlier.

Nevertheless, the principal activities of the Industrial Bank were to advance loans on the security of government or corporate securities, to subscribe to or underwrite government or corporate security issues and to act as trustee for bond issues in which the mortgage is held by a trustee for the benefit of the bondholders. After 1905, it was authorized to make loans secured by floating mortgages, land and building and to discount bills secured by securities. Paid-up capital and debentures were the sources of its funds. As the Bank's cooperation with government increased, more and more of its debentures were subscribed by the Deposit Bureau of the Ministry of Finance. The government guaranteed dividends to shareholders as was the case with Hypothec Bank. The government also guaranteed the payment of interest on any securities sold by the Industrial Bank in foreign money markets. Thus, the government enabled the Bank to sell stocks and shares abroad and to strengthen its ability to finance loans to both newly established and already developed large scale industrial joint stock corporations in such fields as public utilities, mining, ship-building, iron and steel, chemical and machinery making. However, the Bank tended to concentrate more on trust functions for corporations and most of all on stimulating the inflow of foreign capital after 1902,

the Bank took charge of the marketing abroad of government bonds and debentures issued to finance public welfare undertakings. Foreign capital inflow between 1897 and 1914 amounted to about 2.275 billion Yen. Much of this was realised from the sale of local government bonds and debentures by the Industrial Bank. The Bank took a few years to make its presence felt. It met with some initial difficulties in finding promising joint-stock corporations in which it could invest because the best corporations were already financed by commercial banks and especially the Zaibatsu banks. But, its potential was revealed only after World War I when it provided venture capital for new industries and for colonial enterprises. The Bank made loans both to big and small industries to save them from bankruptcy and also rendered important services to war industries.³²

The Postal Saving System was introduced in Japan in 1874 following British and Belgian examples. They were intended to mobilise small savings from farmers, students, industrial workers and salaried employees. Instruments such as short-term, long-term and recurring deposits as well as Post Office Life Insurance etc., were utilised for tapping these sources. The government fostered the traditional habits of thriftiness and insulated them from the impulses of demonstration effects of western way of life. The Emperor's

exhortations about the need for hard work and frugal living were effective in strengthening savings of the masses of the people. The unique system of payment of bonus to workers and salaried employees twice a year has also contributed to small savings. Though there were privately owned savings banks offering more attractive incentives, the confidence of the people in the government made the Postal Savings System become one of the mightiest institutions in Japan. By 1915, more than 36 percent of the population had postal savings.

The Deposit Bureau of the Ministry of Finance handled these funds. Initially, they were employed in redeeming national debt. Later, they were invested in bonds issued by national, municipal and prefectural governments as well as in buying debentures of special banks like Hypothec Bank and Industrial Bank of Japan. As such it was a source of immense financial strength to the new government. A large portion of postal savings flowed into public investment of various kinds. It was also useful in gaining influence over the operations of agricultural and industrial banks
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and colonial ventures.

Thus, the striking features of the Japanese experience is that without any previous experience the Meiji Government was able to initiate and erect a comprehensive financial structure embracing conventional and specialised institutions within a short span of about three decades. In

this endeavour, the government was consciously selecting suitable institutions from economically advanced countries and adapted them, through a process of trial and error, to the needs of the Japanese economy. Secondly, through its active involvement, the Government had emerged as the conductor of the financial orchestra whose central melody was modernisation. The harmony was particularly effective in industrial development, in conducting rescue operations as well as in exporting capital to its colonies like Taiwan, Korea and Manchuria. The Bank of Taiwan, the Bank of Chosen, Industrial Bank of Chosen, Oriental Development Company were also involved in the colonisation effort. Thirdly, the uniqueness of Japanese experiment is that while there were apparent specialised functions assigned to each category of financial institutions, to a greater or lesser extent, all of them were catering to the needs of long-term investment in industries. In fact the commercial banks were not confined to short-term credit; the Hypothec Bank of Japan got involved both in agricultural and industrial development. Bank of Japan, Deposit Bureau, Hypothec Bank and the Industrial Bank were all involved in rescuing industries in distress. Such flexibility and unified action injected an uncommon dynamism and resilience to

industrial development in Japan. Finally, the symbiosis between the leaders of government and leaders of finance and industry helped to evolve objectives and carry them out with synchronised action. While such unified purpose and action was immensely helpful in the mobilisation of resources from all possible sources and their deployment in desired channels, it also occasionally pushed the nation off the developmental track into military adventures.

Indian experience in developing financial institutions has been far from satisfactory. Whatever modern financial institutions were in operation when political power was transferred to the British Crown were largely the creation of Englishmen in the image of British institutions and practices. Commercial banks in general were designed to meet the working capital requirements of trade and industry. Indian joint-stock banks followed the same traditions. On the whole the Indian money market continued to be primitive and illdeveloped throughout the British period. The foreign owned merchant houses and exchange banks were mainly specialising in financing foreign trade and shipping which were predominantly in foreign hands. As seen earlier the financial system of the government was largely a prototype of the British system. In the absence of an institution comparable to the Bank of England, the government could not wield any influence over the banking

system and its operations until the establishment of the Reserve Bank of India in 1935. Government business was handled by the departmentally administered Treasury System. Only after World War I, part of the government business flowed through the foreign owned Imperial Bank of India which was constituted by merging the three Presidency Banks. Given the guiding philosophy and financial practices, therefore, the British Rulers in India were utterly unconcerned about developing new financial structures and practices oriented to the modernisation of the Indian economy.

The only institutions which the British administration paid some attention were the Postal saving, Provident Fund institutions and rural credit cooperative societies. Small savings mobilised through the post offices and provident fund institutions were a trickle. In fact, there was no effort to promote thrifty habits or to canalise small savings into industrial ventures. The market pressure and demonstration effect induced the upper and middle classes to emulate the luxurious life styles of the alien rulers and businessmen. The credit cooperatives could neither foster frugality on the part of the farmers nor could save them from the clutches of unscrupulous money lenders. In the absence of a capital market or traditions of investment banking, the Managing Agency System ruled the roost as the principal source of

investment finance. Thus, in British India, there was neither the will nor the effort to create the requisite financial institutions or the instruments to mobilise private saving which could have been channeled into industrialisation and modernisation of the economy. In this respect, the contrast with Japan is indeed glaring. Under these circumstances, if there was any symbiosis it was between the government bureaucracy and the powerful British economic interests which militated against the industrialisation of the Indian economy.

6. Overload of Colonial Exploitation

The colonial exploitation of India began with the Battle of Plassey. The plunderous policies of the East India Company began with the "robber state of Robert Clive". Warren Hastings who was named the first Governor-General of India had left his own legacies of graft and corruption. Exploitation under the Company Rule took several forms. First, a portion of the revenues from Bengal was set apart as "investment". This amount was used for the purchase of goods for exportation to England. There was no reciprocal supply of goods or return. The word "investment" was an euphemism for tribute. Company's investment went on increasing no matter what the economic conditions of the country was in any given year. On the average, transfer on this account is estimated to have been about \$1.25 million per annum until 1813 when the trading rights of the Company were taken away.³⁴

Secondly, all costs of conquest of the rest of India were borne by Indian revenues. Most of the "ordinary" expenditures on account of wars waged against Asian, African and middle eastern countries were charged to the Indian revenues. Afghan Wars, Burmese Wars, Wars in Persia and Perak and so on were waged with Indian financial resources and manpower. Besides, a part of the "extraordinary" charges were also imposed on India. The distinction between "ordinary" and "extraordinary" is nebulous. In any case, Indian defence expenditure kept on increasing under the Company rule. Consequently, Indian revenues were strained at the seams. Since, 1813, there were only 13 years of revenue surplus totalling £8.9 million i.e., Rs.89 million. On the other hand, 33 years were characterised with deficits amounting to £ 72.2 million or Rs.722 million. Therefore, the normal state of Indian finances was one of deficiency of income and additions to debt. The outstanding public debt stood at £ 30 million or Rs.300 million in 1852-53. Most of the increases were during ^{and} after wars of expedition. After the Sepoy Mutiny i.e., by 1960-61 the outstanding debt of India jumped to £ 93 million. During the eighteenth century, the Company used to borrow at 6-10 percent interest rate in London. From 1823-1863, the rate was mostly 5 per cent. Thus,

increasing public debt most of which was unproductive
 imposed a recurring burden on Indian revenues.³⁵

Thirdly, due to the laxity of control over the state of British officials who flooded civil and military administration in India, there was an inordinate increase on account of salaries, pensions and allowances which had to be paid in England. This along with debt servicing, purchase of stores etc., which were called the "Home Charges" averaged about £ 1.25 million per annum before 1813. The "Home Charges" continued to increase from about £ 2.5 million in 1813-14 to nearly £ 6.2 million in the last year of the Company rule.³⁶ The "Home Charges" amount to about £ 130 million for the period 1813-1860, averaging a little less than £ 3 million per annum. About one-fifth of this was estimated to represent the value of stores supplied by England to India. The rest of it is regarded as a "Drain" on the Indian revenues which were collected from poor Indians who used to pay 40-50 percent on their borrowings from local money lenders. Even on a modest 12 percent compound interest the annual drain would have amounted to over £ 10 billion in 50 years.³⁷ This, then was the state of Indian Finances around 1860.

There was no such disastrous legacy from Tokugawa regime. No doubt, the last few decades of Tokugawa rule

was faced with considerable financial strain mainly due to the undue increases in the number parasitic retainers and their love for luxury. But the regime managed to survive by increasing their revenue through fiscal monopolies, issue of debased currencies etc., as well as by squeezing the lower Samurai, wealthy merchants and farmers. Though there were occurrences of sporadic peasant revolts, the Tokugawa period experienced relative peace and stability from within and without. Borrowings from merchants and money lenders were in the nature of transactions within the economy which did not involve any net outflow of national resources.

Most of the debt vanished into thin air in the course of the Meiji Restoration.³⁸ Only when the new regime decided to abolish the hans and their retainers finances had to be found to pension them off. The assets created under the Tokugawa regime were also taken over by the Meiji Government. Thus, while the Indian economy and finances were like a half squeezed orange when it was handed over to the British Crown, there was no such debilitating maladies threatening Japanese economy and public finances.

7. Comparative Mobilisation Effort

The finances of Japan were in shambles soon after the Meiji Restoration tax revenues accounting for only for about 3.2 million Yen which was less than 10 percent of the current

and capital resources. Land tax accounted for about 63.7 percent of tax revenues, the other taxes being customs and miscellaneous. There was no revenue from non-tax sources such as profits from trading or enterprise activities. Borrowings constituted about 14 percent of the total. Less than a fourth of this was from external sources. The rest of the resources was met by issue of paper money to the tune of about 24 million Yen which accounted for 72.6 percent of all revenues.³⁹

The situation changed remarkably over the years. By 1870 tax component of total receipts increased to 9.3 million Yen, accounting for about 44.5 percent. The share of land tax in tax revenues was over 70 percent.⁴⁰ The relative importance of paper money issued declined though it still accounted for more than a quarter of the receipts of central government. Borrowings from abroad accounted for 22.8 percent of central finances. There was no internal borrowing or enterprise or trading profits.

The Land tax Reform act of 1873 had resulted in a sudden jump in tax revenues which soared from 21.9 million Yen in 1872 to more than 65 million Yen in the following year. To a small extent, the increase in tax revenues was due to the introduction of wine tax. In 1874, therefore, tax revenue accounted for nearly 90 percent of the central

finances. The improvement of the relative position of tax revenues is partly due to the total disappearance of public borrowings and new issues of paper money. The issue of paper money assumed great importance during the first two years following the Restoration as well as in 1872, the total amount involved during 1868-1872 being, 73.3 million Yen.⁴¹ Profits from enterprises had also cheered up accounting for about two million Yen in 1874. This was the peak year for land tax which accounted for over 59 million Yen or 91 percent of the tax revenues in 1874. Since then the relative importance of land tax has declined partly because local governments were assigned land as their main basis of taxation.

The other important reason for the absolute decline in the proceeds from central land tax was the reduction in the rate of tax from three percent to two and half percent of the capital value of land, though there was no updating of land values resulting from inflation. The declining importance of land tax is also attributable to diversification of the tax structure especially after the Matsukata Reforms since 1880. Consequently, its share in central tax revenues declined to less than one-third in 1900 and about 15 percent by the end of the Meiji period.⁴²

Absolute decline in land tax revenues is also evident for some years when central and local taxes on land are combined together the consolidated land taxes had declined

from an average of 60.7 million Yen during 1879-1883 to 53.4 million Yen during 1889-1893.⁴³ Not all the land taxes came from farm land. During 1880-89, about 90 percent of land taxes were borne by farm land. The rest came from residential and other lands. This pattern is supposed to have held good for local as well as central land taxes.⁴⁴

Presumably with increasing urbanisation non-farm lands may have increased their share especially in municipal areas. Nevertheless, the combined land taxes of central and local governments more than doubled on the average from 1889-1893 to 1909-1911, the amount involved being 53.4 million Yen and 126.2 million Yen respectively.⁴⁵

However, tax burden as a percent of net agricultural output seems to have declined from 16.9 percent during 1878-82 to 12.5 percent during 1908-1912.⁴⁶ But, since the share of the tenant in agricultural production remained more or less constant, the land owners were the greatest beneficiaries of the declining share of the government as well as the declining tax burden on agriculture.⁴⁷ But, as a consumer, the tenant may have also lost on account of inflation if the terms of trade were moving in favour of industrial goods. As for the relative tax between agricultural and non-agricultural sectors, the disparity was almost 8:1 the respective percentages being 16.9 and

2.2 during 1878-1882.

Although there was a considerable narrowing down of the gap over the years, the tax burden on agriculture remained twice as high as that of non-agriculture towards the end of the Meiji period, the relative percentages being 12.6 and 6.4 during 1908-1912⁴⁸. It is also conceivable that as a tax proportional to the capital value of land, its real burden must have been relatively smaller. Inequities must also have crept in since there was no revaluation of land to reflect the changes in the relative values of land.

Regressiveness in the tax structure cuts across sectoral lines.⁴⁹ The diversification of taxation which began in 1874 gathered momentum in the course of the next 25 years and more than made up for the declining importance of land taxes in the Japanese tax structure. Indirect taxes like excise on sake, soya, sugar, tobacco, textiles etc., where the first to appear as early as 1874. Of these, tax on sake had its pride of place. From its humble beginning when it did not account for more than 2.6 percent of the central taxes, it made rapid strides during the last quarter of the nineteenth century and overtook land tax as the principal source of central tax revenues accounting for about 48.9 million Yen or 35.5 percent. Customs duties never exceeded to 10 percent during the Meiji period especially in view of the Treaty obligations. Profits from fiscal monopolies like tobacco, salt and camphor were also important. Excises were effectively used to block shifting

patterns of consumption. On the whole, indirect taxes were regressive in nature and were curbing consumption.

Income tax did not appear on the fiscal scene until 1877. Even when it did, it was levied at flat rate of three percent. Consequently, the proceeds from income-tax was no more than a paltry 3.5 percent of central revenues. Business tax, which came into being in 1896, was in the nature of proportional corporate income tax levied on commercial and industrial enterprises based on the amount of capital involved, rental value of the plant and the number of employees. The highest rates of 5-6 percent were levied on luxurious hotels and restaurants. Transportation and engineering enterprises enjoyed rates ranging from 0.1 to 1.0 percent. Direct taxes other than land tax, therefore, did not create an impression on the tax structure. There were no progressive taxes on inheritance, business profits etc., during the Meiji period. On the other hand, tax exemptions and negative taxes like fiscal subsidies were quite common. Thus, the accent of fiscal policy of the Meiji Government was on curbing consumption and stimulating saving and investment. The secular inflation had also contributed in the redistribution of income in favour of the saving classes. Nevertheless, the record of mobilisation of tax revenues ^{was} impressive.

According to Oshima, tax revenues as a proportion of GNP has
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 been as follows:

1879-1883	10 percent
1884-1895	15 percent
1896-1904	20 percent
1905-1912	25 percent

Non-tax revenues were unimportant in the beginning accounting for a little more than 5 percent of the combined revenues of the government during the period 1879-1883. But, its contribution had registered steady improvement over years. This can be seen from Table I.

Table I
Consolidated Government Revenues
of Japan 1879-1911

Million Yen

five year averages	tax revenues amount as percent of col.(5)	non-tax revenues amount as percent of col.(5)	total amount
(1)	(2)	(3)	(4)
1879-1883	89.5	5.1	94.6
1884-1888	91.8	8.3	100.1
1889-1893	97.8	18.7	116.5
1894-1898	129.1	40.8 86	169.9
1899-1903	235.9	86.2	322.1
1904-1908	387.4	231.0	618.4
1909-1911	503.9	338.2	841.9
(three years average for 1879-1911)	219.4	67.8	287.2

(Source; Oshima, Harry T. Meiji Fiscal Policy, in State and Economic Enterprise in Japan ed. Lockwood, Table I).

It is evident from the above Table that by the turn of the century non-tax revenues accounted for well over a quarter of the government revenues. Profits from the government enterprise and fiscal monopolies were the main sources of non-tax revenues. Operating income of state owned railroads increased considerably after the nationalisation of some of the successful private railroads in 1906.⁵² Posts and Telegraphs, mint etc., were other prominent public enterprises. The sale of government owned enterprises on the wake of Matsukata Reforms had very little fiscal significance,⁵³ the sales proceeds being no more than two million Yen. However, these sales signify the withdrawal of the government from the pioneering role which it had played earlier in initiating the process of industrialisation in a variety of industries. It may also be important that most of these sales were effected at prices well below cost to some of members of the emerging Zaibatsu which exerted a powerful ^{influence} / in the Japanese economic scene in later years.⁵⁴

As seen earlier, public borrowing did not figure in prominently under the Meiji rule. More significant is the fact that Japan relied almost exclusively on domestic resources at least until the turn of the century. It is remarkable that the Meiji Government shunned foreign

financial resources when domestic resources were extremely scarce.

National debt accounted for about 30 percent of the national income during the nineteenth century. About half of the domestic borrowing may have resulted in the creation of new purchasing power. In the initial years, credit creation was found to be the only emergency exist out of the suffocating financial circumstances. Old Tokugawa feudal debts were funded by means of a 20 million Yen bond issue.⁵⁵ In 1874, Chitsroku bonds were issued to the extent of 16.6 million Yen to the Samurai who voluntarily gave up their stipends. When capitalisation scheme was made compulsory for all Daimyo and Samurai in 1876, about 174 million Yen of Kinroku bonds were issued in the following two years.⁵⁶ Thus, the entire domestic debt outstanding in 1878 was credit-financed.

Public borrowing began in 1878 when a portion of the 12.5 million Yen Public Works Loan was placed with the public. In 1883 Nakasendo Railway Loan yielded 38 million Yen of which about 30 percent was subscribed by the public.⁵⁷ Wealthy landlords and industrialists were the largest subscribers to these issues. There were noticeable spurts in outstanding domestic debt during and after the Sino-Japanese War of 1893-94 and the Russo-Japanese War of 1904-05. China paid an indemnity of 360 million Yen in sterling in London though the cost was only 200 million Yen. But, no such indemnity was paid to Russia even though it costed 1721 million Yen to Japan. Almost the entire cost had to be met out of domestic

and foreign borrowing. State railway debt assumed importance since 1890 when the amount outstanding was 25.1 million Yen. There was a continuous but a moderate increase in debt under this head until 1909 when it suddenly jumped from 198.4 million to 605.3 million Yen. This spurt in railway debt followed the nationalisation of private lines.

Foreign loans were a mere trifle accounting for about 6 percent in 1877. It was gradually reduced to nil position by 1897. There were two floatations in London prior to the Sino-Japanese War. The first was the nine percent loan of one million Pound Sterling (4.88 million Yen) floated for the purpose of constructing the Yokohama-Tokyo and Kobe-Osaka railroads. The second was 2.4 million pound sterling loan (11.71 million Yen) floated in 1873 at seven percent to help the government to meet the financial needs of

pension commutations. Expansion of public investments and sale of government bonds abroad through the financial institutions like the Industrial Bank of Japan led to increases in international indebtedness of Japan since 1899. The Russo-Japanese war also gave a big boost to foreign borrowings.

The pattern of revenue mobilisation in British India has been quite different. First, of all, from the point of

view of smoothness and stability, the transfer of power from the Company to the Crown was not as rough as that of the Meiji Restoration. James Wilson did pretty well in establishing a stable financial system in the quickest possible time. British administration did not have to rely on fiat paper money to tide over the transitional period. Nor did they face the problem of pensioning off the previous rulers. The East India Company was fully compensated. But, the resources for that was found by adding to the long-term liabilities of India. Secondly, British India did not inherit such a monolithic revenue system as the land tax system of Meiji Japan. Indian revenue system was fairly diversified as early as 1861-62. Though land revenue or tax was the mainstay of both the systems, liquor excise, salt duties and customs were fairly important in India from the beginning. Besides, profits from fiscal monopolies like opium were lucrative sources of revenue. Thirdly, the facility with which India could borrow in London was not open to Japan. Despite these initial advantages to India, the performance of Meiji Japan was far more impressive than that of British India in respect of fiscal resource mobilisation. The comparative performance of the two governments in this regard and the important reasons behind are worth examining.

Table I
Consolidated Government Revenues British India
in selected years Million of Rupees

Years	tax revenues		non-tax revenues		Total amount
	amount	as percent of col.(5)	amount	as percent of col.(5)	
1861-62	335.3	83.8	65.0	16.2	400.3
1868-69	337.0	78.4	93.0	21.4	430.0
1878-79	415.0	72.2	160.0	27.8	574.0
1888-89	477.5	68.8	216.3	31.2	693.8
1898-99	617.5	58.4	422.4	40.4	1039.9
1908-09	709.4	53.8	609.8	46.2	1319.2
1913-14	879.3	52.1	807.8	47.9	1687.1

(Source: Financial Statements of Government/and Statistical

of Tables I & II would help to establish some of the striking differences in the trends in revenue mobilisation.

If comparable periods are taken, we could notice that Indian revenues tripled from late seventies until World War I. But the corresponding increase in Japan was about nine times. Secondly, the share of non-tax revenues in India had increased from a quarter in 1878-79 to nearly 50 percent on the eve of World War I. Profits from opium were affected by civil war in China. But those from the railways had increased, though profitable commercial irrigation was never regarded as a source of profit. However, the growth of non-tax revenues was much faster in Japan recording an increase of over 37 times from 1879-1883 to 1909-1911. Thirdly, the growth of tax revenues in India was even slower. Tax-revenues in Japan increased by more than five and a half times over 1879-1883 to 1909-1911. The increase in Indian revenues was less than two and ^a/_{half} times.

Differences in price increase could account for this difference. While wholesale prices in Japan seems to have increased by about 250 percent, the corresponding increase in India seems to have been 200 percent. ⁶³ Therefore, only a a part of the difference could be explained in terms of prices. The influence of differential price can be

moderated if tax revenues are expressed as a proportion of national income at current prices. As seen earlier, this ratio in Japan had increased from 10 percent during 1905-83 to 25 percent during 1905-1912, in India the ratio was roughly about 6 percent ⁱⁿ 1878-79. On the eve of World War I the ratio ⁶⁴ remained more or less unchanged. The real reasons for the better performance in Japan are to be sought partly in the effort to mobilise and mostly in the tempo of development which is influenced by the efforts of both the public and private sectors. The two reinforce one another. Tax proceeds are affected by the expansion of the tax base (or the bases for different taxes), effective rates of taxation, efficiency and economy in tax administration, and so on. But, in the main, the differential performance is attributable to the rapid industrialisation of Japan and its slowness in India.

There was an apartment similarity in the structure of taxation. First, by their very nature both the land tax system of Japan based on capital value of land and the land revenue system of India based on net income determined through cadastral surveys conducted once in several decades were somewhat static. Secondly, the ruling classes in both the countries were allergic to progressive taxation of income and property. The income-tax which was introduced in India as early as 1860-61. The proceeds from this source remained more or less unchanged throughout the British period. Thirdly,

treaty obligations in Japan and vested interests in Britain stood in the way of exploitation of the tax potential of customs duties. Yet, the proceeds from land tax more^{than} doubled in Japan since 1879-1883; the corresponding increase in land revenue in India^{being} only 45 percent. Customs revenues recorded a five-fold increase in India from 1878-79 until World War I. On the other hand, customs revenues increased by more than 15 times in Japan over 1880 to 1910. Salt duties in India suffered a set back since 1900 mainly due to political resistance mounted against it. The record of performance in respect of excise duties is almost similar. Thus, the crucial difference in relative tax performance lies in the increasing role of indirect taxation in Japan. The higher yield is partly attributable to the rising levels of per capita income and consumption in Japan as compared to India. The growth of per capita income in India is almost impeceptible⁶⁵ increasing by about 15 percent over the period 1880 to 1914. On the other hand, per capita income in Japan nearly doubled over the same period. Even if we allow for the increasing ratio of saving in personal income, the per capita real consumption in Japan in 1914⁶⁶ was more than 75 percent over that of 1887. Income elasticity will not, therefore, explain all the differences. Intensity of exploitation of the sources of indirect

taxation must be an important factor in tax performance. This seems consistent with the general approach of curbing consumption and investment which pervaded economic policies in Meiji Japan. On the other hand, Britain did not regard taxation as an instrument of economic development of India. They were content with the colonial exploitation of India. Skimming something out of the fiscal process without causing undue disturbances was a part of this overall objective.

A few observations may be made about public debt. First, public debt incurred by the East India Company reached about 50 million on the eve of the Sepoy Mutiny. It had almost doubled as a consequence of the debts incurred to suppress the Mutiny as well as to redeem the other liabilities involved in the take over of power by the Crown. At the end of 1960-61, the Rupee Debt stood at 635 million Rupees while the Sterling Debt amounted to about 285 million Rupees. Almost the entire amount was unproductive in nature. Only about one third of the Rupee Debt was estimated to have been held by Indians. Thus, out of the total of about 920 million Rupees of public debt more than 700 million rupees were due to foreigners. The debt kept increasing over the British rule and reached a staggering figure of 1457 million of Rupee Debt and 2655 million Rupees worth of Sterling Debt by the end of 1913-14. The foreign

ownership of the Rupee Debt decreased over time though there was a growing complaint that domestic borrowing was not given its due importance. Secondly, the share of unproductive debt was gradually getting reduced except during years of famine, war and exchange losses. The complexion of debt underwent a change due to the commitment of large amounts of borrowed funds in productive public works in Railways. Large amount were also involved in the acquisition of many of the private railways at the expiry of the guaranteed period. Thus, the unproductive part of public debt came down to about 19 percent by 1914.⁶⁸ Thirdly, small savings was negligible in the total debt of India. In this respect it was quite in contrast to the Japanese Experience.

8. Highlights of Public Expenditure

One of the interesting features of public expenditure in British India and Meiji Japan is that both were spending fairly large amounts on defence. As a British colony Indian people had no choice in the matter. The leaders of Japan chose to arm themselves. Initially it was meant to defend Japan against imperialist machinations. Before long, Japan sought to establish its own empire. In India, it was to defend the British empire with Indian resources and, perhaps also to defend India against the Indians!

Table III
Defence Expenditure in Japan
for Selected Years

					Million Yen
fiscal year	total military expenditure	total government expenditure	col(1) as percent of col.(2)	GNP at current prices	col.(1) as percent of col.(4)
	(1)	(2)	(3)	(4)	(5)
1880	13	87	14.9	829	1.6
1890	21	119	17.7	983	2.1
1900	137	465	29.5	2165	6.3
1910	211	1491	14.2	3181	6.6

(Source: Koichi Emi, Government Fiscal Activity and Economic Growth: 1868-1960 pp.16 and 30)

As evident from Table III, defence expenditure as a proportion of government expenditure doubled in Japan in a short span of two decades from 1880. The share^{of} defence in GNP also increased from 1.6 to 6.3 percent over this period. There was also a sharp bulge in defence expenditure^{during} which Sino-Japanese and Russo-Japanese wars. defence expenditure as a proportion of government expenditure shot up to 49.2 and 74.2 percent of government expenditure respectively. For the same years, defence expenditure as a ratio of GNP works out to be roughly 16 and 56 percent respectively.

The Indian case can be seen from Tables IV+ V

Table IV
Defence Expenditure in British India

Period	Average defence expenditure	Average gross public expenditure	Col. (1) as % of col.(2)	Million Rupees
	(1)	(2)	(3)	
1860-61 to 1880-81	179	580	30.9	
1881-82 to 1897-98	235	910	25.8	
1898-99 to 1914-15	297	1364	21.8	

(Source: Budgets of Government of India and local Governments)

Table V
Defence Expenditure and National Income
in British India for Selected Years

Years	Defence expenditure	National income at current prices	col.(1) as % of col.(2)	Million Rupees
	(1)	(2)	(3)	
1880	306	7005	4.4	
1890	228	8357	2.7	
1900	246	9378	2.6	
1910	304	12488	2.4	

(Source: Financial Statements of the Governments of India and National Income estimates by Mukherjee).

Two observations can be made on the basis of Table IV+ V. First, both as a proportion of Public expenditure and of national income, the ratio has been quite high in India. Defence expenditure has been high in 1880 due to the Second Afghan War. Similarly Burmese War swelled the defence outlay in 1890. In fact, there were about a dozen such

was fought outside Indian territories whose costs India had to share before World War I. Considering the relative poverty of the Indian people the burden they had to carry because of foreign rule was indeed great. Secondly, both the ratios have tended to decline over time. This may be because there was not much of a challenge to British power in South Asia except that Afghanistan continued to be a sore spot. Another fact which is not depicted in the Tables is that defence outlay in India did not act as a stimulating factor in industrial development of India except that defence oriented roads and railways helped the development of certain areas like Punjab. Military works largely consisted of roads and military barracks. Most of the military supplies were procured from England.

The Home Charges to which reference has already been made kept on increasing every year, the amounts involved being as follows:

	Million Ruppes
1861-74	1466
1874-98	3578
1898-1915	4251
Total	<u>9295</u>

One-third to one-half of this huge amount was regarded as
⁶⁹"drain". Depletion of resources ^{magnitude} at such staggering/ meant further exhaustion of the Indian economy and impoverishment of the people. The drain was even larger in view on the huge profits, high salaries, managing agency commissions etc.,

skimmed out of activities in which British capital was deeply entrenched.

A striking feature^{of} public expenditure in British India is the absence budgetary subsidies in aid of industrial and commercial activities as was the case in Japan. The pattern of government subsidies in Japan can be glimpsed from Table VI.

Table VI
Government Subsidies in Japan
for Selected Years

Year	Industry	Commerce	Others	Total	Government expenditure	col.(4) as % of col.(5)
	(1)	(2)	(3)	(4)	(5)	(6)
1880	0.4	0.3	1.3	2.0	87	2.3
1890	2.3	0.2	1.5	4.0	119	3.4
1900	12.0	6.6	4.5	23.1	465	5.0
1910	15.3	12.5	12.5	40.3	1491	2.7

(Source: Ranis, G. "The Financing of Japanese Economic Development," The Economic History Review, Second Series, Vol. II, 1958-59, 9.443)

Table VI reveals the increasing use of fiscal subsidies to stimulate economic development in Japan. The amount involved increased from a modest sum of two million Yen to over 40 million Yen in 1910. Its share in Public expenditure had also increased upto 1900. Though subsidies covered a wide range of activities, industry and commerce claimed the lion's share. The share of industry has been fairly high from the beginning. But its share increased from

about 20 percent in 1880 to 58.7 percent in 1890. On the whole, industry accounted for more than half of the amount involved. Commerce occupied second place. Its importance increased considerably since 1895. By 1910 its share increased to over 30 percent. In a way, the pattern of subsidies reflects governmental priorities and concern for the development of industries and growth of external trade and shipping. Unfortunately, developmental subsidies have been conspicuously absent in the fiscal system in British India except in the case of railways which were constructed by private foreign capital during the second half of the nineteenth century.

Public investment has played a pioneering role in some of the capitalist countries which have spurred their efforts to catch up with the lags in development. Japan is one of those countries which have used public investment as a powerful propeller priming the dynamic elements in economic development. Curiously enough, India had also received considerable public investment under the British rule. It is, therefore, worthwhile to assess the relative roles of public investment in Japan and British India.

Table VII
Ratio of Gross Public Investment to GNP in
Japan and British India
for Selected Years

Year	Japan		British India
	Including military	Excluding military	
1880	1.8	1.6	1.7
1890	3.1	2.4	1.6
1900	6.6	4.0	2.0
1910	8.0	5.9	2.9

(Source: For Japan Koichi Emi op.cit., pp 6 and 57
 For India: Government Budgets and
 M. Mukherjee's National Income Estimates)

As evident from Table VII, the rate of public investment has been, more or less, at the same level in both the countries in 1880. The rate has also increased over the decades in British India. But the relative rate of increase has been much higher in Japan the ratio being more than two and half times in 1910. Since, India had very little public investment in armament and naval shipyard industries, it may be fair to exclude such investments while making comparisons. Even then the ratio is twice as high in Japan 1900 onwards. However, the relevant difference lies in the pattern of public investment and not so much in the rate. But, since the data relating to Japan is more in terms of economic rather than functional categories in uniform basis for comparison does not exist. As for British India nearly 60 percent of public investment has flown into transport and communication. Public buildings

had also been quite prominent. Irrigation facilities were given some importance. But industry, power, agriculture, mining etc., were altogether neglected especially during the period under study.

No doubt, infrastructural facilities like transport and communication constitute a necessary part of developmental effort. Irrigation facilities also carry a powerful potential for agricultural development. But the notorious feature of public investment in India is the total neglect of industrial development. It is here the contrast with Japanese experience is most glaring. Meiji Government went all out to pioneer in a wide range of activities including infrastructural facilities as well as heavy and light industries. ⁷⁰ It was hard-headed realism and clarity of purpose which prompted the conservative Meiji Government to assume the entrepreneurial role when it found the private sector unequal to the challenge of industrial modernisation. It was this pragmatism which also led the government to dispose of some of the state undertakings in the early eighties when their success was fairly well demonstrated. In fact, the public sector in Japan continued to expand especially in the social and economic overheads and defence-oriented heavy and capital goods sectors of industry even when the buoyancy in private investment was increasingly in evidence. Consequently, the share of the public sector in domestic

capital formation kept on increasing over the Meiji period accounting for over half of the total during 1897-1916.⁷¹

The need for rapid industrialisation was never lost sight of during the Meiji period despite the aberrations and distortions caused by adventurous wars of aggrandisement. Even these misadventures emphasised the need for self-sustaining efforts in heavy and capital goods industries. In fact, rapid industrialisation was the focal point of all public policies be it institution building, laying the foundations of education and technological development, income distribution, taxation, fiscal subsidies and public investment. It was this seminal approach which was missing in British India. Basically this was due to the fundamental difference in the concept of national interest governing public policies in the two countries. In Meiji Japan it meant modernisation through rapid industrialisation. In India it meant the safeguarding of the global interests of Great Britain. The British administration in India was prepared to undertake everything which would ensure the stability of the British Empire and develop the Indian economy as a complementary outpost to the metropolitan economy. Industrial development as a key to modernisation was inconsistent with the basic economic interests of Great Britain. The scale and pattern of mobilisation and deployment of fiscal resources pursued in British India bears out the colonial approach to economic development.

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